



Markets in crisis

Climate change and the global economy

COMM 9

The final challenge to the supremacy of the market is posed by the environmental crisis. Climate change is perhaps in the long term the most serious element of the triple whammy hitting the global economy. One fundamental problem is that, whereas markets work on the basis of private ownership, the environment is a public good.

SIMMS

Climate change is a very good example. Because you're dealing with the ultimate public good. It's an atmosphere which is convivial to human society, so if you take that as an example and ask the question 'how do you deal with the valuing and the measuring of that thing which is upsetting the balance, carbon and carbon dioxide and the fossil fuels that we depend upon so much?', you run into some interesting questions and the most simple answer, of course, and in fact the only effective one is that, globally, you have to set a cap, a limit on how much is put into the atmosphere - and you have to set it in such a way that it is in line with the science, about not triggering runaway global warming effects.

Now, if you can set a cap on the total amount of emissions, then you're faced with the economic, social, political decision of how you divide up our entitlements to emit. So you cap first of all and then you have to find some way of allocating. Now once you've done that, it's fair, and can be quite effective if the markets are designed in the right way, to allow market mechanisms with price signals to operate.

COMM 10

So there may be a place for a well-designed market in permits to emit, but only once a limit has been set to total emissions. And the environmental crisis points up another limitation of markets: they tend to be short-sighted.

BRONWYN CURTIS

What you have to remember is there are limits to how, what a market can do. And markets are now, of course you have futures markets but generally people are looking now at markets, so you're getting an allocation now. But does it ever think about the future, and I think you don't think about the future because that matters less and climate change is a good example of that. Where we can all see that the cost of putting all the carbon dioxide into the atmosphere is causing problems for the long term. But we haven't increased, no matter what the schemes put forward, we haven't increased the price of carbon to the extent that we've sort of made people actually really stop putting that carbon into the air.

COMM 11

The crises of the early twenty-first century have re-ignited long running debates about the effectiveness and role of markets, and about the other social institutions that are needed to shape and constrain markets.

SEN

What was great about Smith's vision is that it was a balanced view. It placed market in a complexity of institutions. It gave market its due, and it's very important, because a lot of people didn't, and it actually at the same time established why it needs the help of others, why markets are as good as the company they keep. And that requires other institutions to be

developed to support the market economy, and to go beyond it and sometimes to negate the market economy and, very importantly, to discipline the market economy.